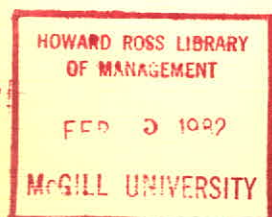


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Agropur

**Forty-Third
Annual Report**

**1980
1981**





Coopérative
agro-alimentaire



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Board of Directors

R. Beaudry	H.P. Maillette
R. Béliveau	F. Masson
J. Bellemare	L. Michaud
H. Crochet	J.M. Robert
G. Gaudet	A. Roy
J.P. Guimond	R. St-Cyr
P.H. Leduc	P. Véronneau
M. Lemire	

Officers

President	Michel Lemire
Vice-President	Lauréat Michaud
General Manager	Raynald Giroux
Secretary	André Gauthier
Treasurer	Guy Duguay

Regions

	Members	Delegates
Salaberry	425	46
Granby	2 409	245
Estrie	751	77
Lac-Saint-Pierre	1 088	116
Bois-Francis	806	86
De l'Érable	693	74
Lanaudière-Grandpré	815	84
La Pérade	774	82
	7 761	810

Highlights

Net sales

Industrial milk	\$ 362,007,585
Fluid milk	137,791,617
Farm supply	27,135,344
	\$526,934,546

Milk Collections (in litres)

Industrial milk	866,066,704
Fluid milk	180,439,819
	1,046,506,523

Number of employees: 2,018

Last five years at a glance

Year	1981	1980	1979	1978	1977
Sales, in \$ millions:	527	453	371	327	302
Annual change, in %:	16	22	13	8	5
Earnings distributed to members, in \$ millions:	3.1	3.1	3.3	2.5	2.5
Average price complements per hectolitre, in \$:	2.049	2.065	1.442	1.542	1.265
Net earnings after price complements to members, in \$ millions:	3.6	4.6	4.1	4.8	3.3
Members' equity, in \$ millions:	68.3	58.9	50.3	44.8	40.0
Working capital, in \$ millions:	31.8	27.5	13.2	26.2	24.1
Long-term debt, in \$ millions:	29.8	29.2	23.2	14.2	12.3
Milk collections, in millions of litres:	1,046	992.3	933.9	929.5	947.1
Number of members	7,761	8,186	8,357	8,833	9,002



Board of Directors

Seated, left to right:

*H.P. Maillette
 *R. St-Cyr
 *M. Lemire
President
 *L. Michaud
Vice-President
 *R. Beaudry

Standing:

J. Bellemare
 G. Gaudet
 R. Béliveau
 F. Masson
 J.P. Guimond

J.M. Robert
 P. Véronneau
 P.H. Leduc
 H. Crochet
 A. Roy

*Members of the Executive Committee



*Administrative
Committee*

Left to right:

Reynald Charest
*Manager, Industrial
Milk Division*
Jean Hupé
*Manager, Fluid
Milk Division*
François Maheu
*Manager, Farm
Supply Division*

Raynald Giroux
General Manager
Claude Ménard
*Manager,
Financial Services*
Guy Duguay
Treasurer

Roger Bourgault
*Manager,
Human Resources*
Raoul A. Blouin
*Manager,
Membership Relations*
André Gauthier
Corporate Secretary

Message from the President



Dear Members:

There is a certain feeling of pride in me today as I present this Forty-Third Annual Report of Agropur, Coopérative agro-alimentaire.

The 1980-81 fiscal year represents an important milestone in the history of our Coopérative. During those past twelve months Agropur business volume passed the half-billion dollar mark for the first time.

This achievement is all the more worth stressing because it occurred during a period of deep economic recession.

In fact, the year was an extremely difficult one from several viewpoints. Inflation, higher prices for raw materials and soaring interest rates hit us hard on all sides. Our Coopérative nevertheless acquitted itself extremely well, even though overall results were less spectacular than those of previous years.

Due to the unfavourable economic situation during the year we did not undertake any large construction projects. We are instead working to consolidate our past efforts in all fields: cooperation, processing, distribution, finance and others.

The year began on a happy note with the amalgamation of our fluid milk subsidiary, Québec-Lait, with the parent company: Agropur, Coopérative agro-alimentaire.

This integration represents another major step for all of us. Among other things, it will make it possible to centralize operations more, facilitate communications between managers of the different services, cooperate even more with our components and maintain the purely democratic thrust of our decision-making centre.

Membership Trends

During this past fiscal year 486 producers joined our big Coopérative family, while 580 left, for various reasons: farm sales, abandonment of production, father-son bequests, consolidation, formation of companies, and so on.

In addition, the files of 334 inactive members were transferred to the ad hoc account, since these farmers had not had any economic links with our Coopérative for at least three years.

While in the realm of figures, it should be mentioned that during the past year there were 15 meetings of the Board of Directors, five meetings of the Executive Committee, five meetings of the Solidarity Committee and 10 meetings of the Farm Supply Committee.

Labour Relations

The 1981 fiscal year also saw some movement towards the signing of a first marketing agreement between the Office des Producteurs de Lait and the Conseil de la Coopération Laitière.

However, the two parties were unable to come to an agreement during the eight negotiating sessions held during the summer months.

In view of this lack of results, the Office and the Conseil decided to ask the Farm Marketing Board to intervene as a mediator to help them come to an agreement.

Following these attempts, Management took some other active steps.

Acting in concert with the Directors of member cooperatives of the Conseil de la Coopération Laitière, on the eve of the latter's annual congress, our officers directed an ultimatum to Coopération Laitière representatives on the Conciliation Committee.



This motion called for the representatives to take the necessary steps, within a three-month period, so that the coopératives could make milk payments to their own members, in conformity with the agreements signed on December 21, 1979, and June 6, 1980.

Conseil de la Coopération Laitière

During the year the Agropur Directors attended two meetings with Coopérative Fédérée de Québec executives, as well as two meetings of the member cooperatives of the Conseil de la Coopération Laitière. Theme of the latter meeting was "Marketing in the Coopérative Organization".

Our President and Marketing Director took part in this symposium as guest speakers.

Acquisitions

On December 1, 1980, our Coopérative put in a successful bid for the milk volume and trucks of Les Produits Laitiers Sutton inc.

In February 1981, we also acquired all the assets of Les Fromageries d'Oka Inc. As a result, our Coopérative now makes the justly famous Oka cheese.

By the beginning of the fiscal year, we had already acquired the milk transport operation of Beaudry & Lacoste inc. in St. Alexandre d'Iberville. This purchase allowed our Coopérative to rationalize our transportation services better and distribute milk to our various plants more efficiently.

Granby Feed Mill

During last year's general meeting we also mentioned that the Granby feed mill was due to open shortly. Milling operations at this new plant actually got underway last July, and the official opening ceremony was held on August 9 with a large crowd attending.

We are extremely proud of this new mill, which substantially increases production of feeds to serve the growing needs of our members. It also provides interesting possibilities for improving the quality of our feed mixes even more. Last but not least, it allows us to offer an even greater variety of dairy, hog and poultry feeds.

Social Action

Our Coopérative was especially active in the social relations field during the past year.

First of all, I am happy to tell you that our General Manager, Mr. Raynald Giroux, was named as one of the Honorary Chairmen for the University of Sherbrooke Hospital Centre financing campaign. This is a signal honour which all our members can applaud.

We also revised our donations policy during the year, following a thorough analysis by the Solidarity Committee and the Animators during a series of meetings last spring.

Under this more coherent new policy, budgets are allotted to charitable and promotional purposes. The new and innovative part of this procedure is that certain amounts are attributed annually to regional farm activities, in proportion to the number of members in each region.

We also continued our annual practice of giving a \$100 bursary to each rural youth group organizing a dairy heifers show in our territory.

To encourage further studies in agronomy and agricultural techniques, we awarded bursaries to two Laval University students, as well as to four second-year students at the technological institutes in St. Hyacinthe and Ste. Anne de la Pocatière. We also gave a subsidy to the University of Sherbrooke cooperative faculty once again.

New Product and Intercooperation

Last April 18 we introduced a new product on the market: breakfast yogurts containing cereals and citrus fruits. These have already proved an immense success with consumers, and prove that our efforts to achieve intercooperation are no idle boast.

One of these breakfast yogurts contains maple syrup. This gives us the opportunity to work closely with one of the province's largest cooperatives: the Québec Maple Sugar Producers. This initiative will be of benefit to both cooperatives by opening up markets for an increased volume of products under mutually advantageous conditions.

Milk Payments

For some time now we have been considering the matter of again changing our payment cheque stub format to meet the needs of the two main categories of milk producers.

The Board of Directors set up a committee to study this matter in depth and make appropriate recommendations.

The new stub, in use since last September, incorporates the changes made in 1979 at the time of the agreement between the cooperative movement and the dairy sector farm unions.

It provides extremely detailed information, and is a highly efficient management tool for milk producers. In addition, the new stub permits our Coopérative to make direct payment for both fluid and industrial milk to all member producer-suppliers.

During the past fiscal year our Management also decided to invite members' sons and daughters to the Animators' meetings and the Coopérative's parish and regional meetings.

This initiative gives these young people, whose eventual goal is to take over and run their family enterprises, a chance to gain a better knowledge of how the farm cooperative movement works. As a result of the mutually beneficial dialogue thus opened up, these young farmers-to-be will be better prepared for their future roles and the Coopérative's foundations will be strengthened.

Informative Visit

Our Management people travelled to Minnesota last year to visit the Land O'Lakes Inc. farm cooperative, in order to study its administrative and management methods.

Land O'Lakes is one of the largest cooperatives in the United States. It did over \$4.4 billion worth of business in 1981 and employs 8,000 people. It has 9,000 direct members and serves 250,000 farmers through its 900 affiliated cooperatives. It produces more than 40% of all the butter consumed in the United States.

This cooperative is very active in numerous other areas in addition to the dairy sector. It is involved in the raising of turkeys, veal calves, hogs and poultry; the manufacture of farm feeds, fertilizers, petroleum products; grain growing, farm supply operations, agricultural research; marketing of food products, and much more.

This visit was extremely instructive because it showed us the road an agri-food industry cooperative must follow if it wishes to diversify production to the utmost.

Members' Capital

During last year's General Assembly we told you that the Board of Directors had decided to alter the members' capital structure of the Farm Supply Division. The delegates at that time expressed a wish for an in-depth analysis of the financial structure of the entire Coopérative, to determine whether the present capital sharing arrangement really meets present needs.

In the months since then, several meetings of Solidarity Committees and Animators, backed up the Treasury Service, have been organized to study all aspects of this problem.

The analysis showed that there is a sufficiently high total of subscribed capital. However, it has not been shared in an ideal manner, considering the objectives to be pursued and the Coopérative's new needs.

In order to benefit from the most advantageous credit conditions, it has become essential to increase the amounts allocated to permanent capital.

The increase in ordinary or permanent preferred capital will create a more solid financial base for our Coopérative, which will also benefit from less rigorous requirements on the part of financial institutions.

All members will profit in the final analysis from these more interesting conditions.

Subsidies

It was brought to our attention during the last few months of the fiscal year that the Canadian Dairy Commission was preparing to reduce and even eliminate the subsidies now being paid to milk producers. We oppose this decision vigorously.

We are trying to make the Canadian Dairy Commission understand that these subsidies to producers have not been indexed since 1975. Their real value has therefore decreased by 10 to 20 per cent annually since that time.

This subsidy not only provides farmers with a more acceptable income level, but also directly benefits all Canadian consumers. Cutting it down or removing it entirely would obviously increase the prices of dairy products.

The Canadian economy benefits in two ways from the subsidy, and in view of the current economic situation this would be an extremely inopportune time to eliminate it.

Société Coopérative Agricole des Maîtres Producteurs Laitiers du Québec

During a special general assembly last July, members of the Société Coopérative Agricole des Maîtres Producteurs Laitiers du Québec (SCAMPLQ), an organization formed by merger of the Coopérative des Producteurs de Lait de Montréal and the Coopérative La Québécoise, decided by a strong majority to offer their assets to other cooperatives operating in the same territories as they did.

Most of the members of this organization are already firmly convinced of the advantages offered by a movement such as ours. They are authentic cooperators, so we decided to accept the offer to purchase their assets. This was done on September 1 and we were able to begin managing the operation in mid-December. We are now awaiting the date for closing the sale so we can become the full owners in actual fact.

Conclusion

In closing, I wish to thank all Agropur executives and staff for their loyal support and cooperation at every stage. We can thank them for the fact that last year's fiscal results were so admirable in spite of everything, and especially the current recession.

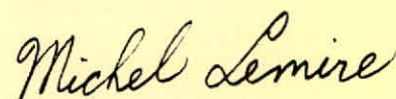
I don't think it is necessary to emphasize the fact that we are now undergoing an economic crisis of major proportions which severely affects the Coopérative as a whole, and its business components in particular.

That our Coopérative was able to obtain such positive results under these conditions once again demonstrates the movement's vitality and its astonishing ability to face unfavourable conditions. In difficult times the members support one another to find ways to overcome economic crises.

Our Coopérative is thus a powerful and useful tool for economic survival.

Never hesitate about letting it serve you, because that is precisely what it was created to do.

Michel Lemire



President

*Financial
Report*

*1980
1981*



**Consolidated balance sheet
as at October 31, 1981**

Assets	1981	1980
Current		
Cash and short-term investments	\$ 4,701,452	\$ 5,294,282
Accounts receivable (including members \$3,049,603; 1980 — \$3,152,696)	27,744,546	24,359,580
Grants receivable	1,933,400	916,750
Income taxes recoverable	167,222	325,601
Inventories (Note 1)	38,120,024	29,127,979
Prepaid expenses	564,400	564,622
	73,231,044	60,588,814
Investments (Note 2)	2,590,140	2,812,467
Grants receivable	—	1,933,400
Fixed (Note 3)		
Land, buildings, machinery and equipment	106,302,827	92,621,086
Accumulated depreciation	(48,460,704)	(41,837,439)
	57,842,123	50,783,647
Goodwill and other assets less accumulated amortization	7,266,555	6,472,474
	\$140,929,862	\$122,590,802

See accompanying notes to consolidated financial statements.

On behalf of the Board

Michel Lemire Director

Laurel Michard Director

Liabilities	1981	1980
Current		
Bank loan, secured	\$ 261,955	\$ 915,000
Accounts payable (including members \$6,674,241; 1980 — \$4,971,908)	36,904,495	29,141,185
Current portion of long-term debt	4,227,431	2,936,897
Income taxes payable	—	125,094
	41,393,881	33,118,176
Long-term debt (Note 4)	29,803,168	29,166,749
Deferred income taxes	1,440,211	1,352,333
	72,637,260	63,637,258
Members' Equity		
Members' capital (Note 5)	58,505,007	49,662,767
Excess of appraised value of fixed assets over cost	—	279,685
Unappropriated earnings	3,538,581	6,604,000
General reserve	6,249,014	2,407,092
	68,292,602	58,953,544
	\$140,929,862	\$122,590,802

See accompanying notes to consolidated financial statements.

**Consolidated statement of earnings
for the year ended October 31, 1981**

	1981	1980
Sales and other operating income	\$526,934,546	\$453,280,173
Cost of goods sold	466,099,264	400,064,013
Gross margin	60,835,282	53,216,160
Selling expense	26,212,192	21,489,894
Administrative expense	8,916,441	7,067,249
Interest on long-term debt	5,742,719	3,929,912
Interest income and other income, net	(1,708,992)	(1,711,228)
	39,162,360	30,775,827
Earnings from operations	21,672,922	22,440,333
Gain on disposal of fixed assets	60,912	281,798
Amortization of goodwill	(754,515)	(603,004)
Earnings before following items	20,979,319	22,119,127
Price complements to members	16,392,343	16,138,320
Earnings before income taxes	4,586,976	5,980,807
Income taxes of subsidiaries	1,018,714	1,369,719
Net earnings for the year	\$ 3,568,262	\$ 4,611,088

See accompanying notes to consolidated financial statements.

**Consolidated statement of unappropriated earnings
for the year ended October 31, 1981**

	1981	1980
Balance at beginning of year	\$ 6,604,000	\$ 5,511,476
Net earnings for the year	3,568,262	4,611,088
Transfer of the excess of appraised value of fixed assets over cost	279,685	17,909
	10,451,947	10,140,473
Adjustment of prior years' income taxes	—	110,959
Transfer to general reserve of prior year's unappropriated earnings of the Coopérative	3,379,199	3,425,514
Transfer to general reserve of unappropriated earnings of Québec-Lait inc. (Note 6)	3,534,167	—
	6,913,366	3,536,473
Balance at end of year	\$ 3,538,581	\$ 6,604,000

See accompanying notes to consolidated financial statements.

**Statement of general reserve
for the year ended October 31, 1981**

	1981	1980
Transfer of prior year's unappropriated earnings of the Coopérative	\$ 3,379,199	\$ 3,425,514
Patronage refunds	(3,111,992)	(3,081,597)
	267,207	343,917
Income taxes	40,548	142,831
Net transfer to general reserve	307,755	486,748
Transfer of unappropriated earnings of Québec-Lait inc.	3,534,167	—
Balance at beginning of year	2,407,092	1,920,344
Balance at end of year	\$ 6,249,014	\$ 2,407,092

See accompanying notes to consolidated financial statements.

**Consolidated statement of changes in financial position
for the year ended October 31, 1981**

	1981	1980
Source of funds		
Operations		
Net earnings for the year	\$ 3,568,262	\$ 4,611,088
Items not involving funds		
Depreciation of fixed assets	6,295,458	5,505,338
Amortization of other assets	804,953	619,075
Deferred income taxes	74,984	319,653
Gain on disposal of fixed assets	(60,912)	(281,799)
	10,682,745	10,773,355
Net increase in capital stock	8,842,240	7,101,419
Long-term debt	350,230	5,942,658
Proceeds of disposal of fixed assets	328,719	408,065
Investments	222,338	157,189
Grants	1,933,400	—
	22,359,672	24,382,686
Application of funds		
Fixed assets	12,516,800	3,950,971
Patronage refunds	3,111,992	3,081,597
Grants receivable	—	1,933,400
Goodwill and other assets	694,856	1,051,844
Income taxes	—	52,918
Investment in a subsidiary (Note 7)		
Acquisition cost	\$1,600,009	—
Working capital deficiency	69,490	—
	17,993,147	10,070,730
Working capital		
Increase during the year	4,366,525	14,311,956
Balance at beginning of year	27,470,638	13,158,682
Balance at end of year	\$31,837,163	\$27,470,638

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements October 31, 1981

Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of Agropur, Coopérative agro-alimentaire and its subsidiaries.

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Fixed assets

Fixed assets are recorded at cost net of applicable government grants and investment tax credit related to fixed assets of the Coopérative. Depreciation is calculated on the diminishing balance method over the estimated useful life of the assets concerned except for the building and production equipment of the new plant in Granby and the production equipment of the new feed mill in Granby on which depreciation is calculated using the straight-line method.

Goodwill

Goodwill includes the excess of cost of investment in subsidiaries over their fair value at dates of acquisition as well as purchased goodwill which is amortized on a straight-line basis over a ten year period. It also includes the cost of dairy rounds which is amortized on the diminishing balance method at the rate of 10% applied to the cost price less a 50% residual value.

Income taxes

Income taxes of the Coopérative cannot be finally determined before approval of the patronage refunds at the annual general meeting of members. Therefore, income taxes on the unappropriated earnings of the Coopérative are accounted for after the approval of the patronage refunds and reported in the statement of general reserve.

Income taxes are recorded on the tax allocation basis. Deferred income taxes arise principally from the fact that depreciation claimed for tax purposes exceeds that recorded in the accounts. Income taxes are recorded net of realized investment tax credit related to fixed assets of subsidiaries.

Other notes to consolidated financial statements

1. Inventories	1981	1980
Dairy products		
Raw materials and products in process	\$ 5,505,991	\$ 4,128,480
Finished products	26,125,175	20,441,397
	31,631,166	24,569,877
Farm equipment and supplies	5,149,252	3,690,185
Maintenance supplies and other inventories	1,339,606	867,917
	\$38,120,024	\$29,127,979

2. Investments	1981	1980
Coopérative associations		
Investments at cost		
Coopérative Fédérée de Québec	\$ 2,364,220	\$ 2,148,875
Centres Agricoles du Québec inc.	35,000	35,000
	2,399,220	2,183,875
Other investments at cost		
Deposits with trustees for redemption of bonds and debentures	260,000	654,100
Mortgage, 10%, maturing August 1, 1986	108,432	124,461
Other	110,959	124,860
	479,391	903,421
Portion maturing within one year	(288,471)	(274,829)
	190,920	628,592
	\$ 2,590,140	\$ 2,812,467

3. Fixed assets		1981		1980	
	Rate	Book Value	Accumulated Depreciation	Book Value	Accumulated Depreciation
Land	—	\$ 2,840,514	\$ —	\$ 2,435,629	\$ —
Buildings	5%	33,579,687	9,016,121	29,249,634	7,479,344
Production equipment	and 10% 20%	53,930,543	32,136,028	47,838,432	28,408,509
Sales equipment	20%	2,050,287	1,230,484	2,006,441	1,190,417
Transportation equipment	30%	8,370,833	5,108,409	6,268,250	3,857,410
Office furniture and equipment	20%	1,357,975	969,662	1,271,425	901,759
Work in progress	—	4,172,988	—	3,551,275	—
		\$106,302,827	\$48,460,704	\$92,621,086	\$41,837,439

4. Long-term debt	1981	1980	
Agropur, Coopérative agro-alimentaire			
Bank loans secured (A), at prime rate or prime rate plus ½%, repayable in annual instalments until 1991	\$26,350,000	\$24,810,000	
Serial debentures, 8% and 8¼%, maturing from 1981 to 1988	2,259,000	2,796,000	
First mortgage bond, Series "B", 8¼%, maturing in 1981	473,000	925,000	
Mortgage without interest, maturing in 1981	—	228,100	
Notes payable, unsecured, 9¾% or prime bank rate plus 1%, maturing until 1986	1,042,943	717,500	
Balance on purchases of shares of subsidiaries, 9½% and prime bank rate less 2½%, repayable until 1996	2,224,007	1,152,000	
Other loans, 8% to 16%, repayable until 1991	1,015,264	991,325	
Carried forward	33,364,214	31,619,925	
	Maturities		
Subsidiaries			
Bank loans, secured, prime rate	1988	277,302	—
Mortgage bond, Series "A", 12.636%	1987	301,125	350,625
Other loans, 8% to 16%	1991	87,958	133,096
		34,030,599	32,103,646
Portion maturing within one year		4,227,431	2,936,897
		\$29,803,168	\$29,166,749

(A) Bank loans include an amount of \$17,000,000 which is secured by a first issue of 12% first mortgage bonds, Series "C", of a principal amount of \$30,000,000 secured by a floating charge on all the assets of the Coopérative.

Repayments of principal:

1982 — \$4,227,431;	1983 — \$4,498,721;	1984 — \$4,388,565;
1985 — \$3,745,194;	1986 — \$3,677,066;	subsequently — \$13,493,622.

5. Members' capital

The members' capital of the Coopérative is variable and unlimited as to the amount which may be issued.

Voting rights are restricted to holders of ordinary capital and such rights are limited to one vote per member.

The ordinary capital and the preferred capital Series "B" are not redeemable but are convertible into preferred capital which may be redeemed under certain conditions. The preferred capital Series "A" is redeemable by resolution of the Board of Directors and the preferred capital Series "C" is redeemable no later than 10 years after issuance.

At year-end, the members' capital issued and fully paid was as follows:

	1981	1980
Ordinary capital	\$ 2,616,943	\$ 2,808,096
Preferred capital — Series "A"	50,114,067	41,424,114
Preferred capital — Series "B"	4,662,553	4,466,497
Preferred capital — Series "C"	1,111,444	964,060
	\$58,505,007	\$49,662,767

6. Amalgamation of Québec-Lait inc.

Agropur, Coopérative agro-alimentaire and Québec-Lait inc., its wholly-owned subsidiary, amalgamated on November 1, 1980 in conformity with a private bill enacted by the Assemblée nationale du Québec. The capital of the new coopérative corresponds to the capital of Agropur, Coopérative agro-alimentaire as it existed before the amalgamation.

Following the amalgamation, the unappropriated earnings of Québec-Lait inc. determined as follows were transferred to the general reserve on November 1, 1980:

Unappropriated earnings since the acquisition by Agropur, Coopérative agro-alimentaire	\$3,073,597
Contributed surplus	180,885
Excess of appraised value of fixed assets over cost	279,685
	\$3,534,167

7. Investment in a subsidiary

The Coopérative acquired, effective January 1, 1981, all the shares of Beaudry & Lacoste inc. for a consideration of \$1,600,009.

This acquisition, which can be summarized as follows, has been accounted for on the purchase method:

Fixed assets	\$1,104,941
Other assets	592,914
	1,697,855
Working capital deficiency	\$ 69,490
Long-term debt	286,189
Deferred income taxes	53,714
	409,393
	1,288,462
Goodwill from acquisition	311,547
	\$1,600,009
Acquisition cost	
Paid cash	400,002
Long-term debt	1,200,007
	\$1,600,009

Operating results are included in the consolidated financial statements since the effective date of acquisition.

8. Contractual commitments and contingency

Lease commitments aggregated \$1,728,965 at October 31, 1981 (1980 — \$1,735,000). The lease expense for the year ending October 31, 1982, will be approximately \$860,117.

On August 24, 1981, Agropur, Coopérative agro-alimentaire received from the Commission de la Santé et de la Sécurité du Travail du Québec an assessment for the years 1978, 1979 and 1980 in the amount of \$300,290. An appeal to the notice of assessment was addressed to the Direction des services financiers of the Commission. No provision has been made in the financial statements for this assessment.

9. Investment tax credit

The Coopérative is eligible for an investment tax credit of approximately \$2,136,000 which can be used until 1986.

10. Post balance sheet event

Agropur, Coopérative agro-alimentaire, jointly with Laiterie Laval ltée, accepted on December 14, 1981, the sale offer, initially submitted on August 21, 1981, made by Société Coopérative Agricole des Maîtres Producteurs Laitiers du Québec, Laiterie des Producteurs de Joliette (1976) ltée, Laiterie St-Georges ltée and Laiterie Chez-Nous ltée.

The sale price to be allocated between the buyers will amount to \$7,700,000 plus the value of the inventories and the accounts receivable determined at the date of the takeover of assets on December 15, 1981. If the buyers should obtain a grant under the program for regrouping manufacturing enterprises, all amounts received will be payable to the seller when received.

The sale price will be payable in cash and/or by the assumption of those debts designated by the purchasers at the closing date which has been set for January 29, 1982, assuming that all conditions and commitments of the offer have been met.

Supplementary Information as at October 31, 1981 (in thousands of dollars)

Earnings by Division	Industrial Milk Division		Fluid Milk Division		Farm Supply Division	
	1981	1980	1981	1980	1981	1980
Sales and other operating income	\$363,230	\$311,714	\$145,951	\$122,859	\$27,135	\$25,891
Cost of goods sold	329,377	282,096	122,319	102,079	23,985	23,072
Gross margin	33,853	29,618	23,632	20,780	3,150	2,819
Selling expense	8,529	6,821	15,874	13,293	2,063	1,778
Administrative expense	4,582	3,465	3,339	2,784	541	416
Interest on long-term debt	4,200	2,457	1,543	1,473	—	—
Inter-division interests	(2,620)	(1,602)	1,255	820	1,365	782
Interest income and other income, net	(642)	(886)	(600)	(529)	(467)	(296)
	14,049	10,255	21,411	17,841	3,502	2,680
Earnings from operations	19,804	19,363	2,221	2,939	(352)	139
Gain on disposal of fixed assets	(70)	175	131	106	—	—
Amortization of goodwill	(254)	(160)	(501)	(443)	—	—
Earnings before following items	19,480	19,378	1,851	2,602	(352)	139
Price complements to members	16,392	16,138	—	—	—	—
Earnings before income taxes	3,088	3,240	1,851	2,602	(352)	139
Income taxes of subsidiaries	134	—	885	1,370	—	—
Net earnings for the year	\$ 2,954	\$ 3,240	\$ 966	\$ 1,232	(\$ 352)	\$ 139
	Elimination of inter-division transactions					Consolidated
Earnings by Division	1981	1980			1981	1980
Sales and other operating income	\$9,381	\$7,183			\$526,935	\$453,281
Cost of goods sold	(9,581)	(7,183)			466,100	400,064
Gross margin	(200)	—			60,835	53,217
Selling expense	(254)	(402)			26,212	21,490
Administrative expense	454	402			8,916	7,067
Interest on long-term debt	—	—			5,743	3,930
Inter-division interests	—	—			—	—
Interest income and other income, net	—	—			(1,709)	(1,711)
	200	—			39,162	30,776
Earnings from operations	—	—			21,673	22,441
Gain on disposal of fixed assets	—	—			61	281
Amortization of goodwill	—	—			(755)	(603)
Earnings before following items	—	—			20,979	22,119
Price complements to members	—	—			16,392	16,138
Earnings before income taxes	—	—			4,587	5,981
Income taxes of subsidiaries	—	—			1,019	1,370
Net earnings for the year	\$ —	\$ —			\$ 3,568	\$ 4,611

Auditors' Report

The Members,
Agropur, Coopérative agro-alimentaire.

We have examined the consolidated balance sheet of Agropur, Coopérative agro-alimentaire as at October 31, 1981, and the consolidated statements of earnings, unappropriated earnings, general reserve and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Coopérative as at October 31, 1981, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Charette, Fortier, Hawley & Cie

Touche Ross & Cie

Chartered Accountants

Montréal, Québec,
January 11, 1982.

Report by the General Manager



Mr. President, Members of the Board of Directors,
Fellow Members and Associates.

As you all know, 1981 was an extremely testing year from the economic viewpoint.

Interest rates soared to previously unimaginable peaks. Energy prices rose spectacularly. The recession affected all sectors of society, and consumers in particular. All these factors combined to slow our growth noticeably in 1981.

Despite the difficult economic situation, I nevertheless am pleased to tell you that your consolidated financial results were actually excellent during this past fiscal year. Even if not too spectacular, some real progress has been made. This strikingly demonstrates the strength of your Coopérative, as well as its great capacity to move forward despite most unfavourable conditions.

The business volume of some services, of course, dropped during the year, and results in other cases were negative.

But the overall balance sheet is favourable. In the current economic climate many enterprises would have been more than happy to post such encouraging results as those we submit to you here today.

During the 1980-81 fiscal year consolidated sales reached a total of \$526,934,546, an increase of \$73 million or 16.1% over the previous 12 months.

Your total assets also grew by \$18 million during the year and now stand at almost \$141 million.

Earnings before price complements to members and income taxes were down slightly, last year, by about 5%. The 1981 figure was \$20,979,000, compared with \$22,119,000 for the previous year.

This decrease was due to several factors, with exorbitant costs for borrowing money certainly ranking first.

As an example, when that important project we now know as the Fromagerie de Granby was first being studied in 1977, your Coopérative was able to borrow money at interest rates of less than 10%. Today, it's 18%.

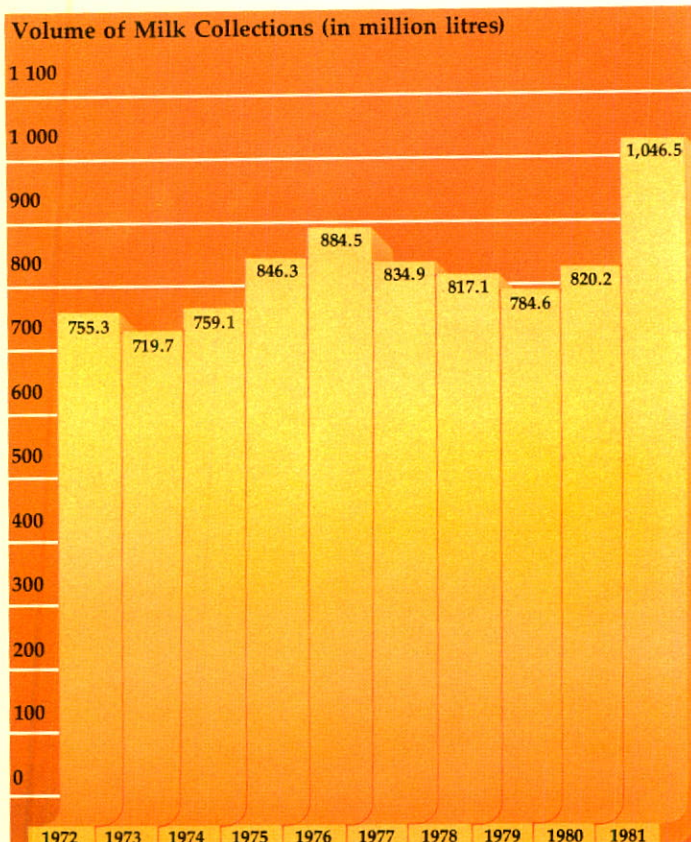
Next, we could obviously speak about price increases for all forms of energy. These have repercussions in numerous areas: packaging, transportation, manufacturing costs, and so on.

Finally, it should be mentioned that new indirect taxes have been brought into effect, further reducing our operating income. For example, unemployment insurance premium payments have increased total wage and salary expenses by 1½%. This increase alone represents additional annual expenditures of \$500,000 for your Coopérative.

Without these unexpected and unforeseeable increases, earnings would have been the highest in the entire history of your organization!

Notable Events

Among the most notable events of the year we would certainly have to single out the renewal in March of the agreement under which your Coopérative supplies Kraft Limited with cheese.



This new agreement is for a five-year period, representing the second segment of a 15-year contract we signed with this manufacturer in 1975.

Finally, we should not overlook the expansion of your Coopérative's Head Office in Granby. Our present needs made this addition essential. Among other things, it enables us to centralize our services to better effect and facilitate communications between managers.

Industrial Milk Division

This Division's sales rose to \$363 million during the year just ended, representing an increase of \$50 million or 16.5% compared with the preceding year.

Milk collections totalled 866,000,000 litres, a 5.4% increase over the 1980 volume. Agropur milk collection volume now stands at about the 1976 level, before the catastrophic reduction in market quotas.

Milk collections from our members increased by 4.7%. By comparison, milk purchases climbed by 28% and now total 39,000,000 litres.

Cheddar and other firm cheeses, our principal production in terms of volume, were down by about 1% this year. This slight decrease was the result of decisions by our customers to slow down purchases or reduce inventories, because of high borrowing costs.

Soft cheeses, Brie and Camembert among them, produced much more positive results, with volume increasing by 17.3% over the previous year.

Production of evaporated milk for export also grew quite satisfactorily, reaching 1,840,000 cases. This was an increase of 12% over the year before.

Butter and skim milk powder production also increased substantially. Butter output rose to 13 million kilograms, from the previous year's 10.5 million kilos, and skim milk powder production climbed from 20 million to 25 million kilograms. These increases resulted from higher milk collection volumes, reduced demand for firm cheeses and lower fresh milk sales.

Due to the nature of its operations, the Industrial Milk Division was particularly affected by the unprecedented increases in energy costs during the year. Those were up by 35% over the previous year, to almost \$7 million annually for energy costs alone.

Maintenance costs also reached a new plateau, climbing to more than \$2.3 million for the year, an increase of 31% over the previous fiscal year.

Those few figures are enough to demonstrate how inflation and political decisions have affected our manufacturing costs and, as a result, selling prices of our products.

Numerous alterations and renovations were made to the Fluid Milk Division's existing plants during the year. Among the more notable improvements were:

- Expansion of the De Beaujeu plant to increase production of Brie and Camembert cheeses by more than 60%.
- Renovation of the old Granby plant to modernize the yogurt processing equipment and increase storage capacity.
- Addition of a fourth receiving bay at the Bon-Conseil plant.
- Construction of a new warehouse for storing evaporated milk at La Pérade, as well as a new system for inspecting milk cans before they are packed in cartons.
- Renovation of the milk collection depot at the De Beaujeu plant. This facility is now large enough to handle milk collections that previously had to be sent to the Huntingdon plant, which was sold during the year as an economy measure.

Throughout the year, Agropur engineers devoted enormous amounts of time and energy to alter our plants so they can conform with Québec environmental protection service requirements.

For example, a pH correction basin and new waste water treatment and control systems were installed at the Fromagerie de Granby. Still larger amounts of money must be invested in the future for works of this kind.

Among those planned for the next 12 months are construction of a waste water purification plant using the anaerobic process, along with an aerobic treatment system. This will permit the recuperation of methane gas to be used as a back-up fuel for steam boilers.

Waste water purification processes in some of our plants must also be analyzed and altered extensively. All these expenditures will obviously increase our operating costs.



Our *Technical Service* devoted special attention to various matters during the past year.

Among them we could mention:

- quality control of milk collected from farms;
- various tests made at the Plessisville plant and the Fromagerie de Granby to find a new method for manufacturing skim milk powder containing partially hydrolized lactose;
- research in cooperation with the Schenley distillery to perfect a new cream-whiskey liqueur, based on a special milk mixture prepared at our Lebeau Street plant in Montréal;
- preparation of plans for a new laboratory to look for new ways to add extra values to milk products and put the brakes on steadily increasing conventional processing costs. Construction should begin during the winter.

As you are aware, the *Sales Service* was completely restructured during 1980, and these changes began to bear fruit during the 1981 fiscal year. Sales of Yoplait yogurt increased by 24.3% in terms of volume. This was a very impressive record, in view of the fact that there was no overall growth in yogurt consumption in Canada as a whole during the year.

Agropur launched a new variety of breakfast-yogurt on the market in March 1981. This new product has already won a good share of the market and we are very optimistic at this stage.

In June 1981 a new 2% butterfat evaporated milk was introduced under the Crino label, as well as a new one kilogram size of instant skim milk powder.

In October, this Service offered consumers a new one kilogram package of Camembert cheese under the Marquis de Vaudreuil label.

We are now in a position to analyse consumer reactions to these new products during the coming year.

Following several months of studies and inter-cooperative discussions during the year, the Sales Service decided to market-test a new prestige butter product under the Savourin label in the Sherbrooke region. Preliminary results are highly encouraging.

Fluid Milk Division

The year just ended was one of the most difficult for this Division since your Coopérative entered the fluid milk market. Consolidated earnings before taxes were only \$1,850,875, compared with \$2,601,587 during the previous year. Numerous factors contributed to this:

- extremely lively competition in the Montréal market;
- energy costs, which increased much more rapidly than selling prices;
- increased packaging costs, which represented an additional \$550,000 in expenditures for this Division alone;
- the price increase decreed by the Farm Marketing Board was not sufficient to compensate entirely for higher manufacturing costs in 1981.

Net consolidated sales of the Division totalled \$145,950,000, up by 19% over the previous year's \$122,658,758. Fluid milk collections increased by 4.9% to a total of 180,439,819 litres. These results encourage us to be optimistic, in view of the fact that the Québec market as a whole grew by only 2% during the same period.

Production of hard ice cream was up by 5.5%, the best increase since the 1973-74 fiscal year. This performance is all the more remarkable considering that the market for this product has been shrinking steadily, with the largest drop in a decade reported last year. Production of soft ice creams and frozen treats held steady at 25,042,557 litres.

The Marketing Service dropped the "Crèmerie Union" brand during the year in favour of the Québon brand.

This changeover was made with great flair. Making good use of modern communications, the Service organized a press conference, staged an advertising campaign on radio, in newspapers and with billboards in the Mauricie region.

The Service also decided to launch several new products. Among them were: a new ice cream flavour, spumoni, offered in 1 litre and 11.36 litres sizes; two new flavours of frozen pudding pops; a new chocolate coated orange sherbet (Space Bar); a new 500 g size of 2% cottage cheese; and a new 250 g size of pineapple cottage cheese.

It should also be pointed out that the Marketing Service conducts an enormous amount of research to diversify the Division's production and offer consumers original and unusual products.

Thanks to Provigo's acquisition of Dominion Stores, our dairy products and Québon ice cream are now available to consumers in all those supermarkets which were previously owned by the large Ontario distributor.

You will also certainly be interested to know that Agropur products are now distributed in 75% of all potential sales markets in our territory.

Turning now to production facilities, the computerized pasteurization and homogenization system at our Ville St. Laurent plant is now working satisfactorily. The plant can now process up to 650,000 litres of milk a day.

To improve quality even more, your Coopérative decided during the year to hire a technician whose sole duty is to visit producers' farms and make necessary recommendations to ensure that milk collected meets the highest possible standards.

While on the subject of quality improvement and control, I am happy to report that the ice cream upgrading programme which we began in 1979-80 has now achieved all our objectives. The marvellous taste of our ice cream won us another "Lys d'Or", an honour in which we can all take pride.

During coming years substantial investments must be made to increase production capacities at our Ville St. Laurent and Montréal North plants to satisfy the growing needs we now foresee.

Despite the appreciable expenditures which will be required, Agropur is confident that the Fluid Milk Division will attain its objectives during the coming year. Management and financial control methods implemented during the past 12 months will be of great help in reaching those objectives.

Farm Supply Division

This Division's results closely reflect the economic recession we are now enduring. Soaring interest rates and production costs have not been totally offset by increased selling prices for our products.

Even though the Division's business volume increased by 4.8% during the year, compared with 1979-80, expenses increased more rapidly than gross margins, so that results were on the negative side for the year.

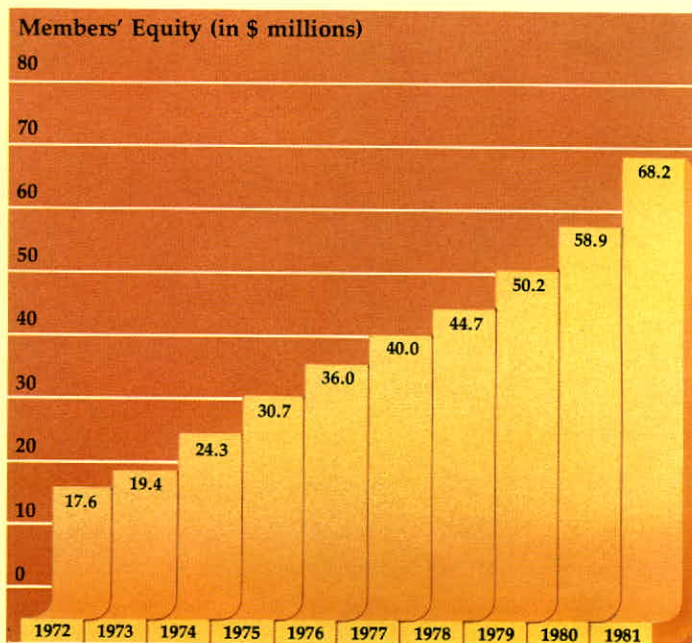
Feed and Fertilizer Service results were satisfactory, on the whole.

Feed mill volume was unchanged from the previous year, with increased prices largely to blame for this stagnant performance. As a result, feed deliveries to our members dropped by 14% during the past twelve months. Volume now stands at 58,300 metric tons.

Seed grain sales increased 45% in volume, to a total of 490 metric tons.

Fertilizer sales were much improved during the year. Volume increased by 21%, with more than 8,900 metric tons of fertilizers of all kinds sold to our members during the fiscal year. Half of this volume was delivered during the months of April and May, a good indication of our organization's capacity to satisfy demand during peak periods. Volume of bulk fertilizers exceeded that of bagged products for the first time this year, accounting for 55% of the total.

Veterinary and Livestock Service volume was up by 105%. This increase was due largely to the merger during the year of the Poultry and Livestock Service with the Veterinary Service, as well as to the fact that animal health care products are now sold in our branches.



The veterinary pharmacy in Granby was moved to a new location, next to the farm accessories store. The pharmacy is now better stocked, and can offer an improved quality of service to members. It is worth noting here that having a veterinary within the Coopérative has some definite advantages that cannot always be translated in accounting terms.

The *Hog Raising Service* marketed 18,691 hogs during the fiscal year, a drop of 22% from the year before. Although results were excellent on the technical level, this Service also made a negative contribution.

Hog prices increased by 30% during the 12-month period, but this wasn't enough to compensate for higher feed prices and other costs hog raisers had to face.

The *Farm Accessories Service* (formerly *Hardware*) saw its business volume drop by 4% from the previous year.

This slight decrease was largely the result of the Granby store discontinuing distribution of such products as butter, cheese, dog food and rabbit feed. The latter two products are now distributed by the Feed and Fertilizer Service.

The *Farm Machinery Service* was the most severely affected by the present economic context, with tractor deliveries to members down to the lowest level in eight years.

Sales of replacement parts increased by 59%, however, and demand for specialized labour was up by 55%. Both factors helped the Service increase business volume by 10% over the previous fiscal year.

The *Membership Relations Service* was kept busy last year putting into practice the conclusions arrived at by the 1980 dairy cooperatives Congress on the theme: "Mediation in the Cooperative Movement".

Management was especially interested in the two factors that form the basic framework of the farm cooperative movement: the member and his family.

The Service has forged closer links with the membership and increased its exchanges with the agricultural team.

The *Communications Service*, for its part, put a tremendous amount of energy into efforts to breathe new life into the cooperative movement by highlighting some perfect examples of individual and collective cooperative action as found on the parish level.

As a result, the regional assemblies took on a new look during the year. Tastings of dairy products were organized, serving as a pretext for getting members together for more serious meetings intended to promote dialogue at all levels.

The Animators also went back to the grassroots of the cooperative movement during the past year, organizing more intimate meetings. In order to stimulate participation, members sat at tables arranged in a U pattern, and microphones were banned.

Other Animators directed their energies into discovering the real needs of their membership. Working with the help of cooperative advisors, they made inventories of the human resources in each parish.

They also held numerous information sessions to learn more about the members' hopes and needs.

In order to improve your Coopérative's efficiency even more, the *Milk Collection Service* acquired seven new routes, in addition to those already operated by the members. Four other routes operated under contract were also consolidated in order to rationalize the collection service.

Last but not least, milk pickup frequencies were increased during periods of under-production to satisfy the rigorous needs of fluid milk producers and to raise the general quality of industrial milk collections.

The *Dairy Equipment Service* cut back by installing fewer new bulk storage tanks than in the previous year, and made a much larger number of repairs. In addition, it sold 49 used storage tanks to various members.

The calibrations of 718 bulk tanks were also checked, to ensure that each member receives fair compensation for production.

The mobile units operated by this Service prove more and more indispensable every day, it should be noted.

The *Human Resources Service* continued its training programme for executive personnel.

It also set up a welcoming service to ensure more rapid integration of new executives by supplying them with necessary data to give them a better knowledge of Coopérative procedures.

An internal newspaper for Agropur personnel and their families was also produced, with the aim of stimulating communications between employees.

"La Voix Lactée" was chosen as the name for this newsletter in a contest organized among employees. The first issue of this bimonthly publication appeared in October 1981.

It should also be noted that we got through 1981 with no major labour conflicts. Several collective agreements were renewed without any work stoppages by the unions concerned.

During 1981 the Province of Québec Chambre de Commerce organized a large contest, the "Mercuriades", to reward the excellence of Québec enterprises in various sectors of activities.

Among the 434 enterprises that took part, I am pleased to say that Agropur received a "Mercure" trophy for its achievements in respecting environmental quality.

Organizers of the competition also awarded your Coopérative a mention for quality of life within the organization. This was a welcome reward for Agropur's efforts in the health and work safety fields.

While on this subject, I am happy to tell you that during the year the *Prevention, Health and Hygiene Service* reached a number of agreements with different medical clinics to provide employees in our various plants with even more complete health and work safety protection.

Finally, and thanks to the close cooperation between our employees and their representatives, safety committees have been set up in all our plants. These committees have made a great contribution towards improving work safety measures and reducing the number of accidents.

Before ending this "grand tour" of your Coopérative's activities over the past fiscal year, I would like to tell you something about our *Treasury Service*.

In view of the current economic stagnation, it became imperative that extremely rigorous control measures be put into effect to reduce operating costs to the utmost possible extent.

The Treasury Service was completely restructured during the year for this purpose, and several other arrangements were also made, with the overall aim of reducing general costs even more.

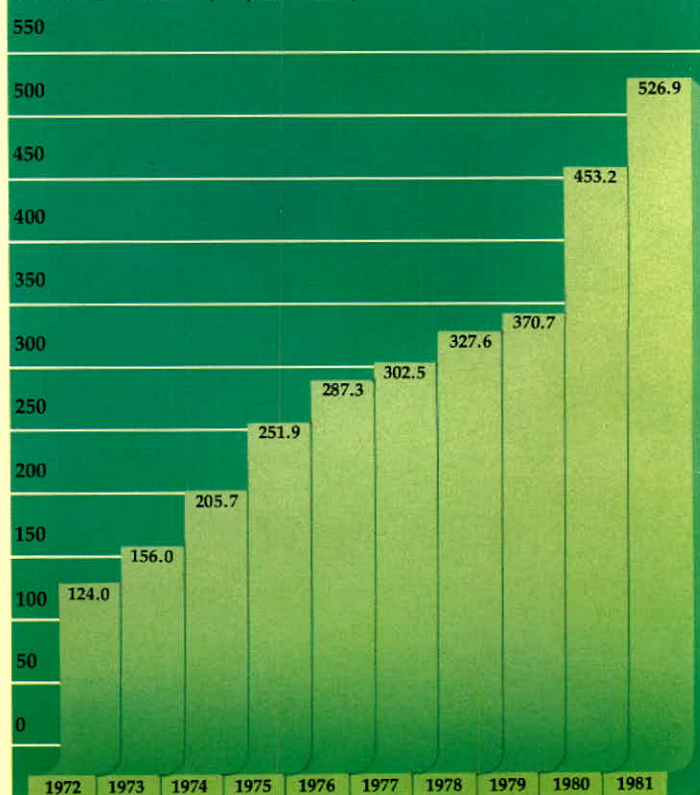
Special vigilance is being exercised at all administrative levels. Inventories are being kept as low as possible. Pressures have been applied to collect accounts receivable within the shortest possible time.

At the request of the Board of Directors, the Treasury Service also studied the possibility of obtaining greater flexibility of action within the standards set by the lending institutions. When accepted, the new procedures will make it possible to obtain loans on better terms.

The Service is now exploring new financing methods such as bankers' acceptances, investments, short-term loans.

Several meetings were held during the year for the purpose of establishing a new capital structure. Various hypotheses were analyzed and some were studied further by members at different meetings organized by the Animators.

Business Volume (in \$ millions)



Conclusion

I would not like to finish my remarks without giving you my thoughts on the difficult period we are now undergoing. Those who look at things through dark glasses see future prospects as rather sombre.

Like any manufacturing operation, ours is a major user of raw materials and energy. Obviously then, inflation and high interest rates have a strong impact on us.

To this must be added another factor directly related to our situation as a supplier of food products.

We are now seeing a strong concentration of food retailing chains in Québec Province. In order to negotiate with these on an equal footing and to protect your interests, we must be strong and skillful.

Along with these concentrated retailing efforts, numerous consumer groups must be taken into account in our planning. Motivated by trendy ideas, the latter groups are becoming increasingly active and demanding. Unhappily, they tend to forget that consumers in general will one day have to foot the bill for all these demands.

Caught in the middle between the contradictory demands of these two pressure groups, it is no surprise that your Coopérative sees its maneuvering room — and its operating margins — becoming ever more restricted.

As if these problems weren't enough, the Federal dairy policy adds another dose of uncertainty to an already extremely unstable situation.

Nevertheless, if we look at the situation as a whole, the current economic stagnation should stimulate rather than discourage us. Paradoxical as it may seem, the present conditions clearly reaffirm the vital role cooperatives have to play in the Québec and Canadian economies. This is especially true for Agropur.

Regardless of today's economic conditions, and no matter how grave the crisis may be, we are in a much better position than other enterprises to continue our growth and progress. The reason is that, as a cooperative, our goal is not solely profits. Our primary role is to offer consumers the best possible products on the best possible terms, while obtaining maximum benefits for the members.

If we examine the past fiscal year's figures, we note that there has been a decrease in earnings distributed to members. However, due to the wider range of products we are offering consumers, and the extremely interesting market opportunities that we offer our distributors, our business volume rose substantially during the year.

I said it before and I will say it again: many companies would be extremely proud if they could report results as encouraging as ours were during this past fiscal year.

There is no doubt whatever in my mind that in the years ahead cooperatives will become even more important for our farmer producers than they are at present.

As time goes by, they will be confirmed even more clearly in their role as the only instrument capable of ensuring members markets for their production and availability of farm supplies on the best possible terms.

In closing, I want to thank the Board of Directors, along with all our members, executives and staff for their commitment to this great collective social and economic activity that we know as Agropur, Coopérative agro-alimentaire.

RAYNALD GIROUX, Agronomist

A handwritten signature in dark ink, reading "Raynald Giroux". The signature is written in a cursive, flowing style with a large initial 'R'.

General Manager



**"More and more,
the consumer's food basket
must guide our tractors"**

The farmer's vital role in society is to feed the people.

In addition to producing basic foodstuffs, the farmer also entrusts his cooperatives with the tasks of processing and distributing his production. By so doing he has closer contact with the public and plays a doubly useful role for consumers. The farmer's marketing cooperative is the tool which helps the producer to control his destiny better.

We live in a swiftly evolving society with extremely rapid communications. The survival and growth of our agricultural industries are ever more closely linked with our ability to listen to consumers' wants and provide their needs.

It is truly a fact that, more and more, the consumer's food basket must guide our tractors.

